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September 12, 1996 **SEP 12 1996**

**FEDERAL COMMUNICATIONS COMMISSION
OFFICE OF SECRETARY**

**Mr. William F. Caton
Acting Secretary
Federal Communications Commission
1919 M Street, NW, Room 222
Washington, D. C. 20554**

**Re: Ex Parte Presentation - CC Docket 96-45
Federal - State Joint Board on Universal Service**

Dear Mr. Caton:

On Wednesday, September 11, 1996, Mr. G. Salemme, Mr. J. Lubin, Mr. M. Lemler and I met with Commissioner S. Ness and Mr. J. Casserly of her Office to discuss AT&T's proposal for Universal Service and Access Reform. The attached material was used as the basis for the presentation.

Due to the meeting being held late in the day, in accordance with Section 1.1206(a)(1) of the Commission's Rules, two (2) copies of this Notice are being filed with the Secretary of the FCC on the next business day.

Sincerely,

Bruce K. Cox

Attachment

**cc: Commissioner Ness
Mr. Casserly**

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**FEDERAL COMMUNICATIONS COMMISSION
OFFICE OF SECRETARY**

AT&T PROPOSAL

FOR UNIVERSAL SERVICE and ACCESS REFORM

September 11, 1996

UNIVERSAL SERVICE and ACCESS REFORM ARE INTEGRALLY LINKED

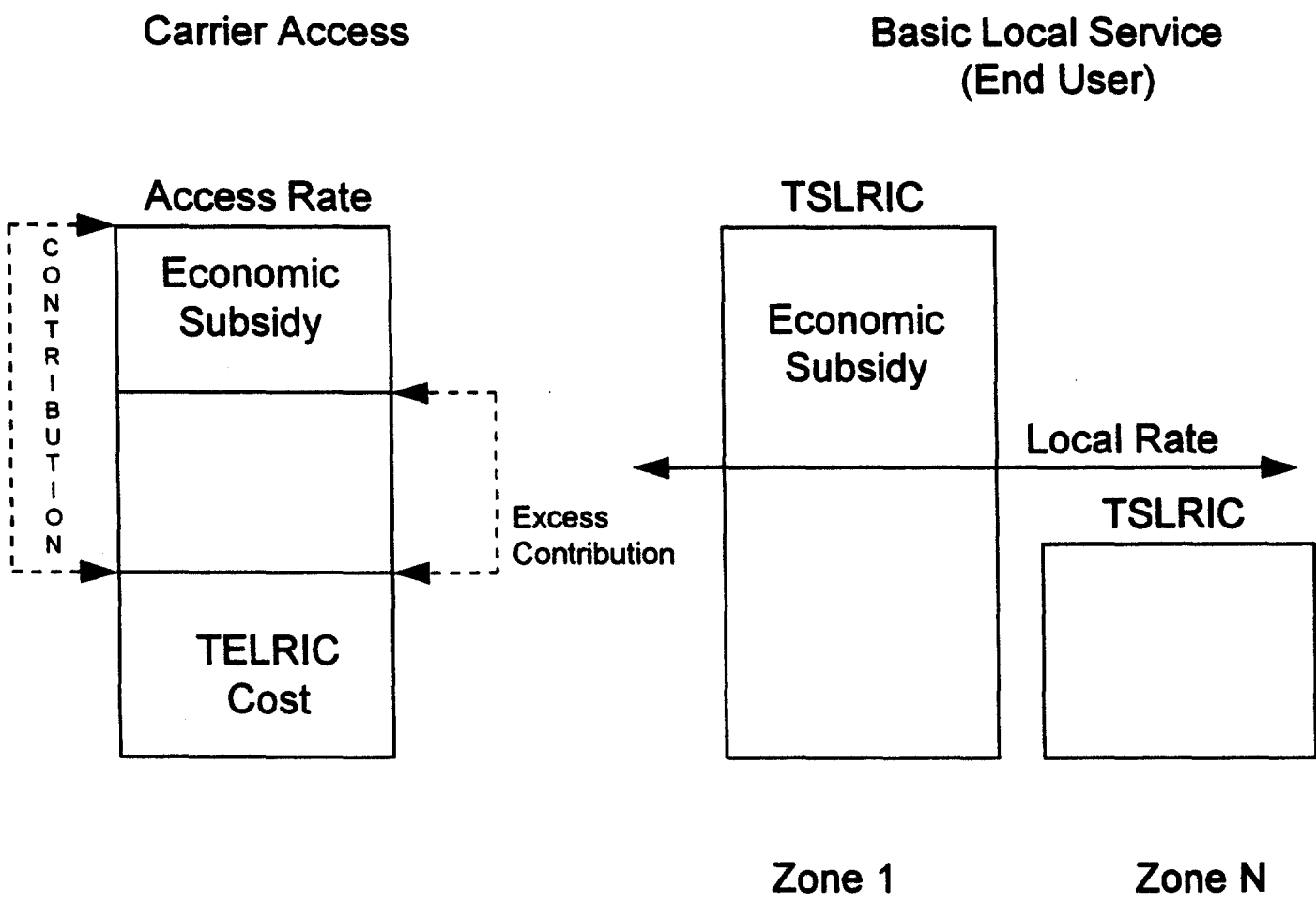
Universal Service Principles (*Section 254*)

- Universal service subsidies should be based on same TELRIC standard as unbundled network elements
- All telecommunications service providers contribute to universal service support in an equitable and nondiscriminatory manner
- Universal service support should be explicit and sufficient for intended purpose
- Any carrier designated as eligible would be entitled to universal service support
 - Competitive LECs (CLECs) who buy/lease unbundled network elements from Incumbent LECs (ILECs) should be eligible

Access Reform Principles

- Access Charge and Section 251 structures must converge
- Contributions must be removed from all carrier-to-carrier payments
 - Access charge is another form of carrier-to-carrier payments

Paradigm Change



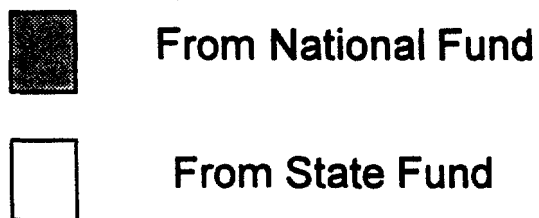
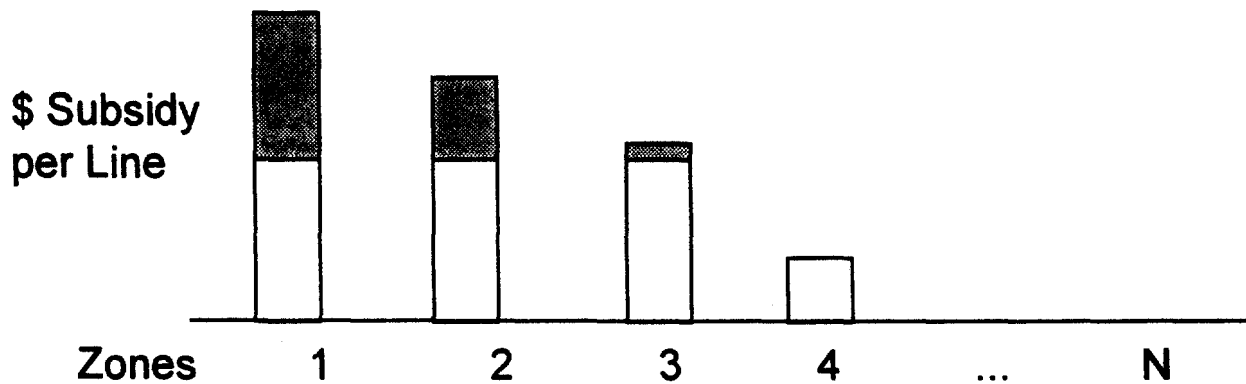
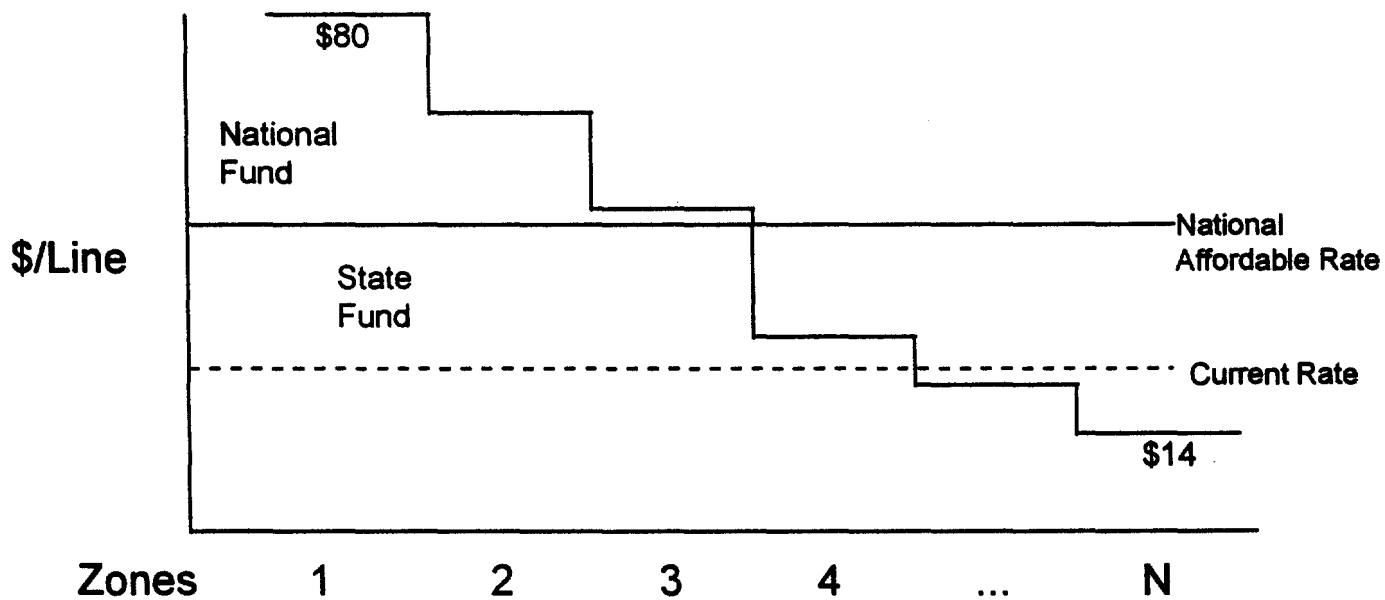
**There is a direct linkage between the
 TELRIC prices of the unbundled network
 elements and the subsidy per line which
 determines the size of the fund.
 (Illustrative)**

UNE*: LOOP (Zones) 1 to N	SWITCH End Office	TRANSMISSION	SWITCH Tandem
TELRIC \$75....\$9	.2 ¢ - .4 ¢	.25 ¢	.15 ¢

TSLRIC of Local Service	=	zone 1...zone N
Line:		\$75. \$ 9.
Port:]	
Switch Usage:		\$ 3. \$ 3.
Transmission:		
Signaling:		
SUBTOTAL		<u>\$78.</u> <u>\$ 12.</u>
Retail End User Cost		<u>2.</u> <u>2.</u>
TOTAL		<u>\$80.</u> <u>\$14.</u>

* UNE: Unbundled Network Element

Determination of the Universal Service Fund from the TSLRIC of Local Service



Summary of Results (Hatfield Estimates)

	<u>RBOC</u>	<u>Large LECs</u>	<u>Total</u>	<u>Small Rural LECs</u>
<u>Access Difference</u>				
1 Current Access \emptyset Rate per min.	2.70 cents	4.41 cents	3.06 cents	6.00 cents+
2 TELRIC Access Rate per min.	.40 cents	.40 cents	.40 cents	.40 cents
	Billions	Billions	Billions	Billions
3 Access Contribution: (L1 - L2) X min.	\$10.21	\$4.81	\$15.02	
<u>Economic Subsidy</u>				
4 National Fund	\$1.84	\$ 1.49	\$3.33	\$1.82*
5 State Fund	\$0.95	\$0.84	\$1.79	
6 Lifeline	\$0.12	\$0.02	\$0.14	
7 Subtotal ** (L4+L5+L6)	\$2.91	\$2.35	\$5.26	\$1.82
8 <u>Excess Contribution***</u> (L3-L7)	\$7.30	\$2.46	\$9.76	0

\emptyset This represents the average interstate/intrastate access rate.

* This includes the current HCF for small rural LECs.

** Schools/Libraries would require additional funds to the USF.

*** This could be partly offset by applying TELRIC access prices to ESP.

Summary of Results (Proxy Estimates)

	<u>RBOC</u>	<u>Large LECs</u>	<u>Total</u>	<u>Small Rural LECs</u>
<u>Access Difference</u>				
1 Current Access \emptyset Rate per min.	2.70 cents	4.41 cents	3.06 cents	6.0 cents+
2 Proxy Access Rate per min.	.63 cents	.63 cents	.63 cents	.63 cents
	Billions	Billions	Billions	Billions
3 Access Contribution: (L1 - L2) X min.	\$9.17	\$4.16	\$13.33	
<u>Economic Subsidy</u>				
4 National Fund	\$2.20	\$1.93	\$4.13	\$1.70*
5 State Fund	\$1.17	\$0.88	\$2.05	
6 Lifeline	\$0.12	\$0.02	\$0.14	
7 Subtotal ** (L4+L5+L6)	\$3.49	\$2.83	\$6.32	\$1.70
8 <u>Excess Contribution</u> *** (L3-L7)	\$5.68	\$1.33	\$7.01	0

\emptyset This represents the average interstate/intrastate access rate.

* This includes the current HCF for small rural LECs.

** Schools/Libraries would require additional funds to the USF.

*** This could be partly offset by applying TELRIC access prices to ESP.

CLOSING THE GAP BETWEEN INTERSTATE CARRIER ACCESS CHARGES AND COST-BASED CHARGES

GAP

\$7.01B*.80-\$1.0B(ESP)

\$4.6 B

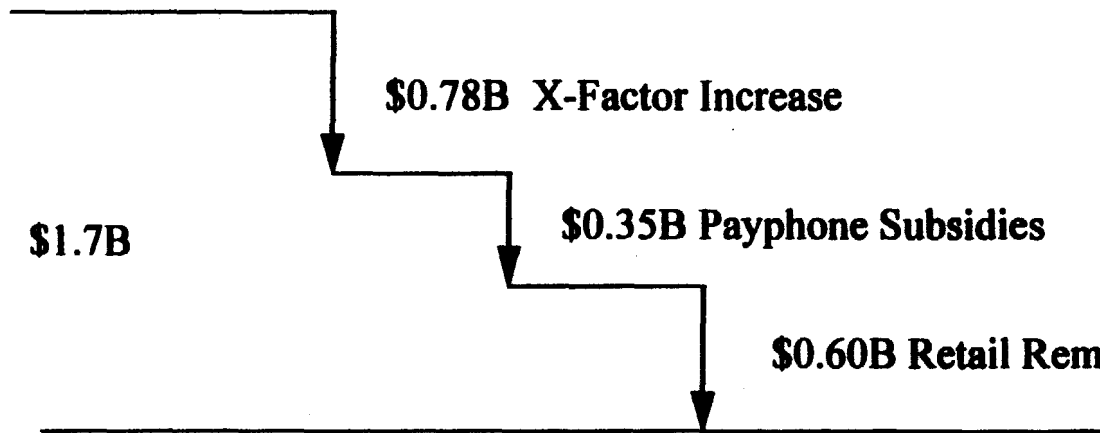
\$0.78B X-Factor Increase

\$1.7B

\$0.35B Payphone Subsidies

\$0.60B Retail Removed

\$2.9B



CLOSING THE GAP BETWEEN INTERSTATE CARRIER ACCESS CHARGES AND COST-BASED CHARGES

GAP

$\$7.01\text{B} \times .80 - \$1.0\text{B}(\text{ESP})$

$\$4.6\text{ B}$

$\$0.73\text{B}$ X-Factor Increase

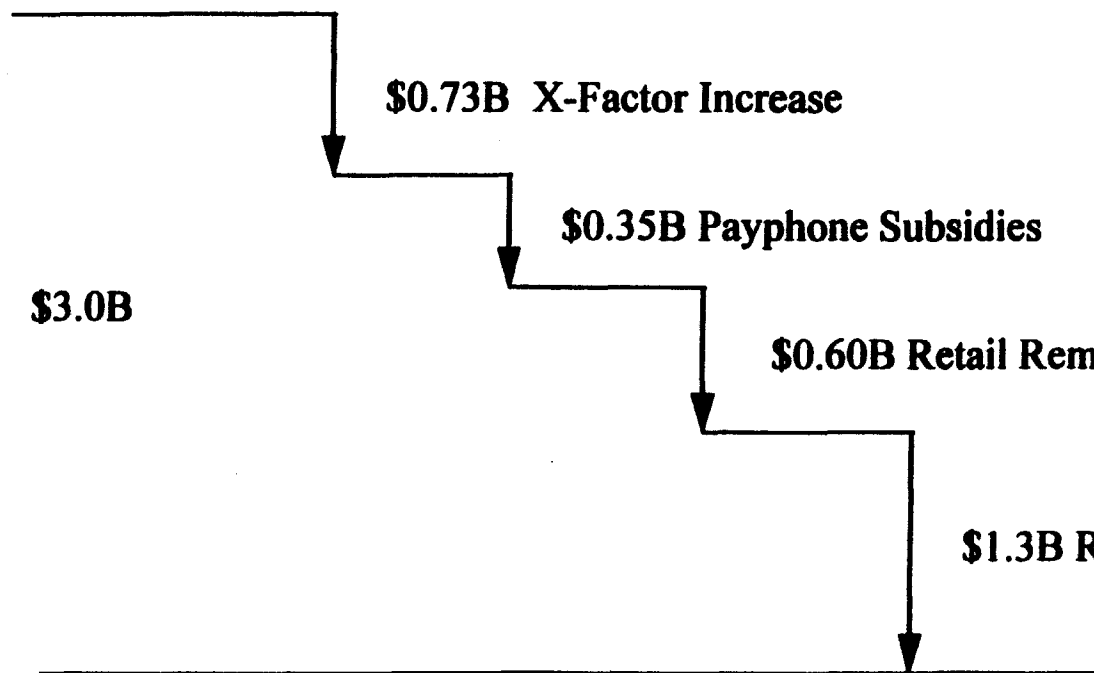
$\$0.35\text{B}$ Payphone Subsidies

$\$3.0\text{B}$

$\$0.60\text{B}$ Retail Removed

$\$1.3\text{B}$ Reinitialization to 11.25%

$\$1.6\text{B}$



CLOSING THE GAP BETWEEN INTERSTATE CARRIER ACCESS CHARGES AND COST-BASED CHARGES

GAP

$\$7.01\text{B} \times .80 - \$1.0\text{B}(\text{ESP})$

$\$4.6\text{B}$

$\$0.71\text{B}$ X-Factor Increase

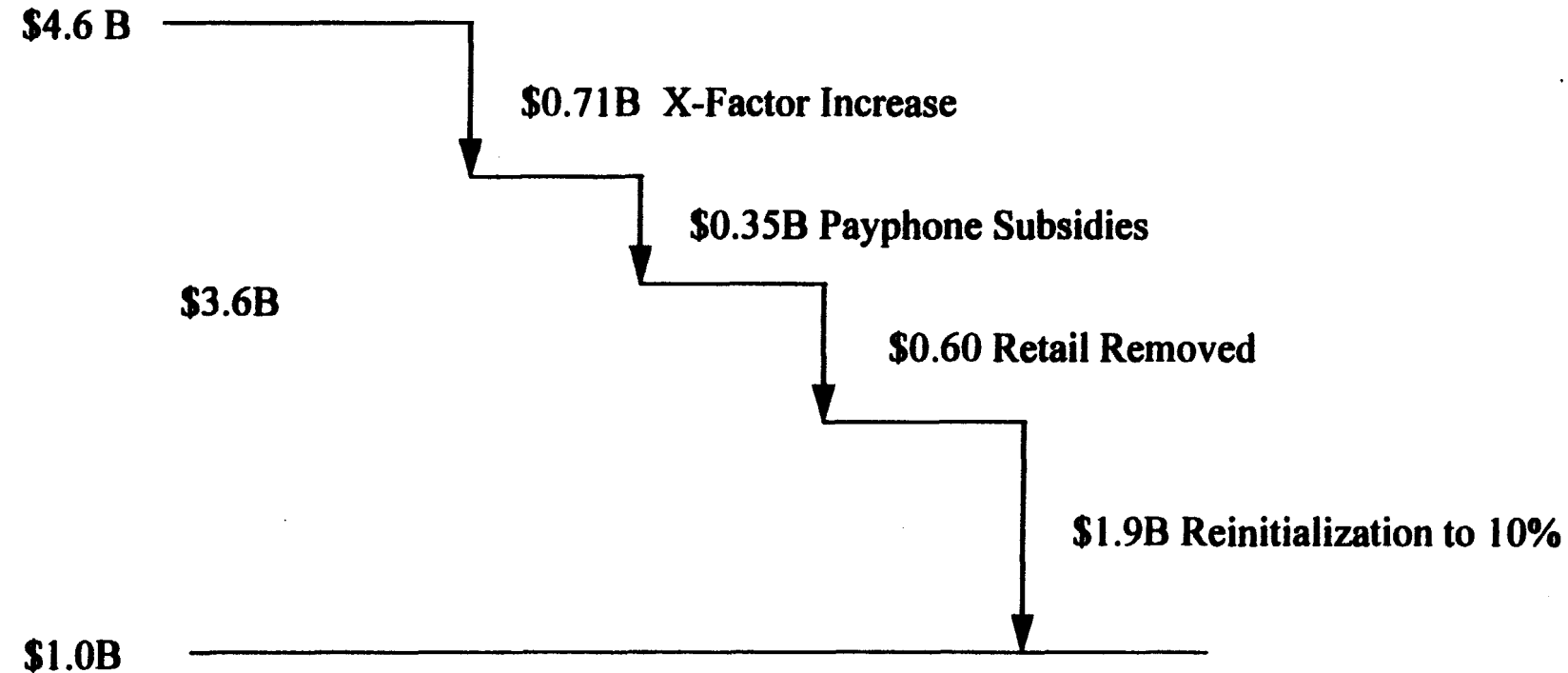
$\$0.35\text{B}$ Payphone Subsidies

$\$0.60$ Retail Removed

$\$1.9\text{B}$ Reinitialization to 10%

$\$3.6\text{B}$

$\$1.0\text{B}$



CLOSING THE GAP BETWEEN INTERSTATE CARRIER ACCESS CHARGES AND COST-BASED CHARGES

GAP

\$9.76*.80-1.0(ESP)

\$6.8B

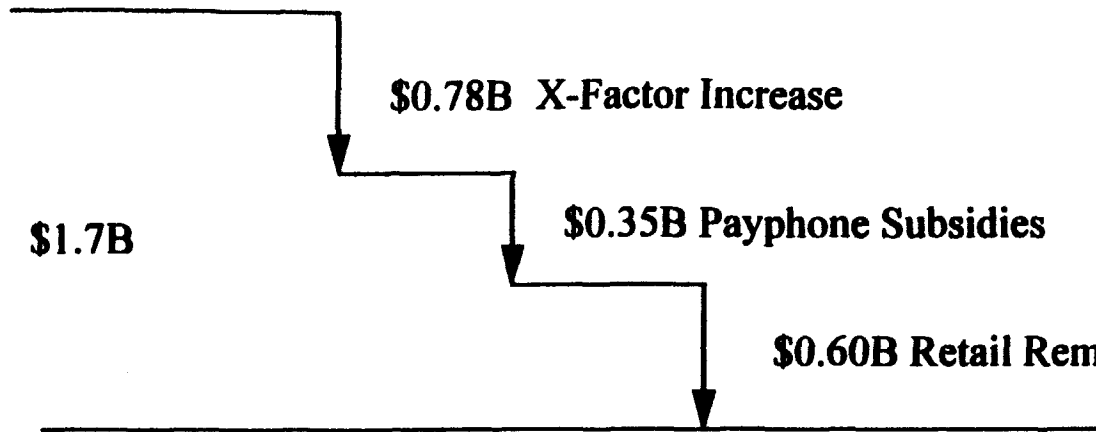
\$0.78B X-Factor Increase

\$1.7B

\$0.35B Payphone Subsidies

\$0.60B Retail Removed

\$5.1B



CLOSING THE GAP BETWEEN INTERSTATE CARRIER ACCESS CHARGES AND COST-BASED CHARGES

GAP

$\$9.76 \times .80 - 1.0(\text{ESP})$

\$6.8 B

\$0.73B X-Factor Increase

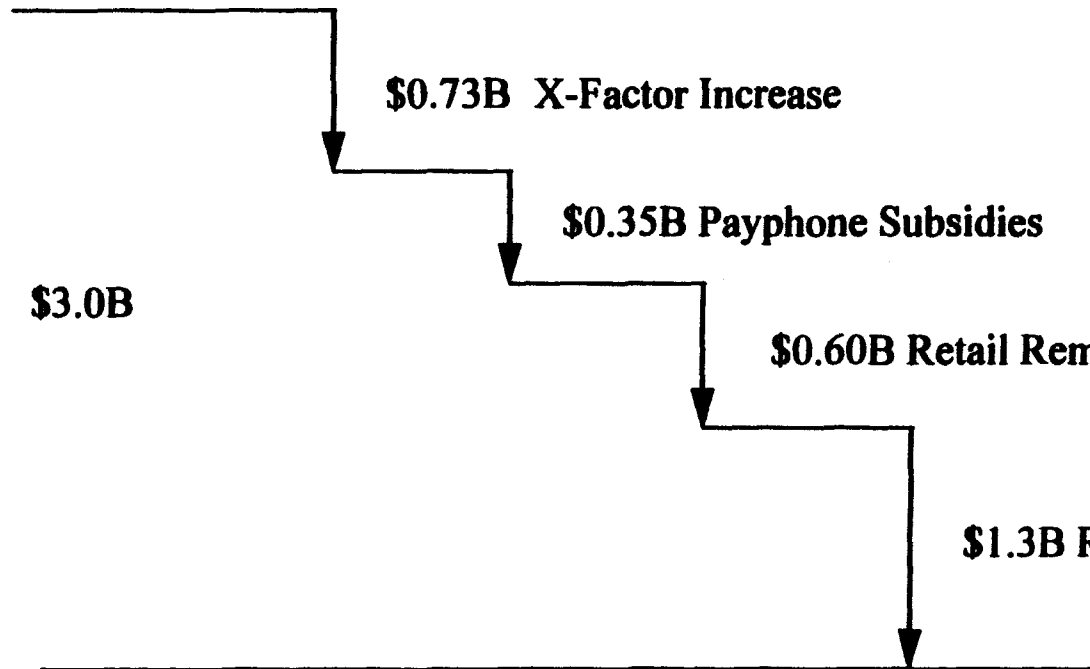
\$0.35B Payphone Subsidies

\$0.60B Retail Removed

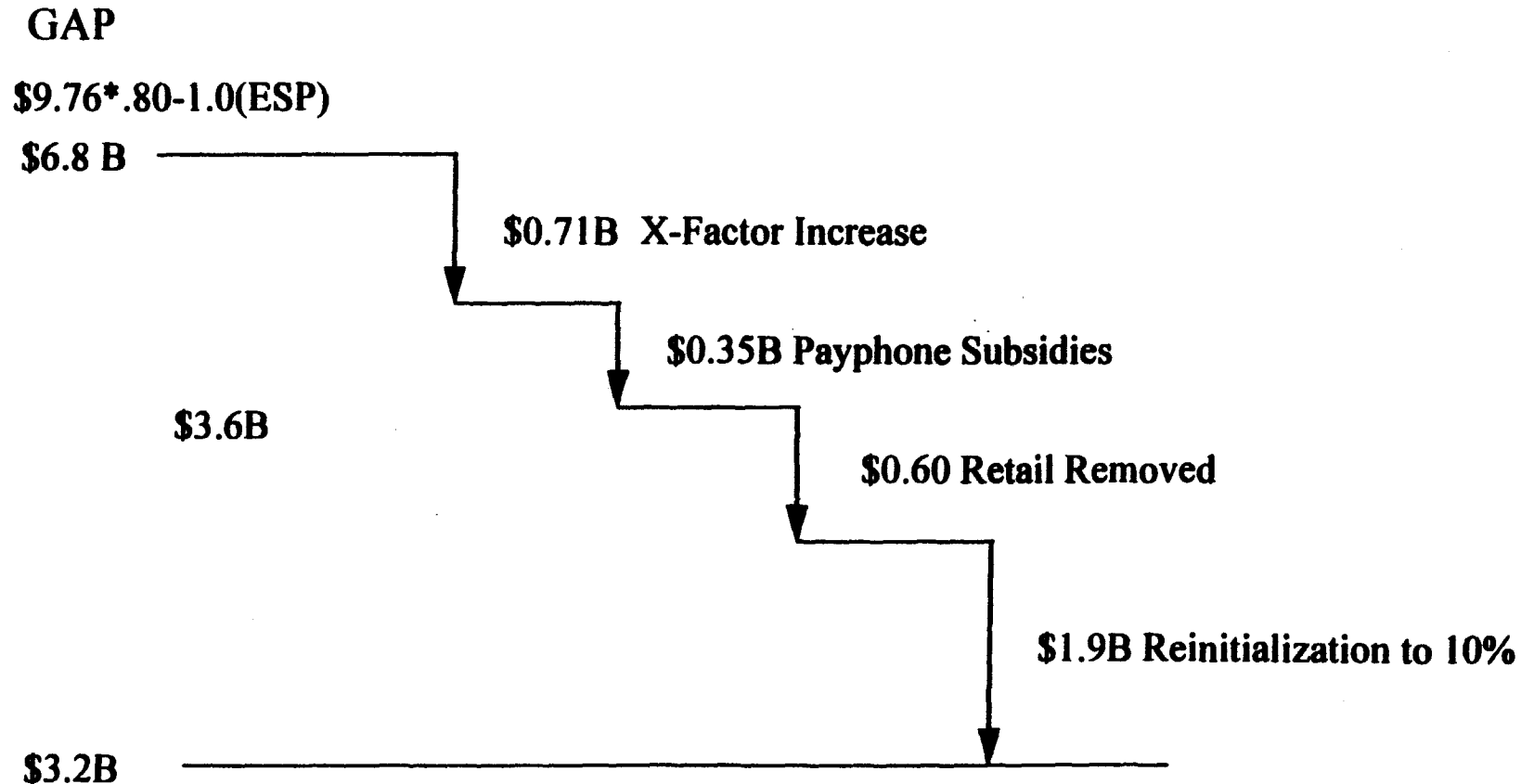
\$1.3B Reinitialization to 11.25%

\$3.0B

\$3.8B



CLOSING THE GAP BETWEEN INTERSTATE CARRIER ACCESS CHARGES AND COST-BASED CHARGES



PRICE CAP COMPANIES-1995 FORM 487 RESULTS

COMPANY	REVENUE	EXPTAX	NET RETURN	AMI	R/R	RETURNING 11.20%	EXCESS	RETURNING 16.0%	EXCESS
AMERITECH	\$2,314,807	\$1,765,838	\$518,169	\$3,083,308	16.76%	\$347,897	\$256,351	\$399,331	\$317,837
BELL ATLANTIC	\$2,878,029	\$2,371,885	\$506,894	\$4,420,570	13.73%	\$487,314	\$188,136	\$442,867	\$348,889
BELL SOUTH	\$3,341,890	\$2,613,046	\$728,844	\$4,027,473	18.76%	\$526,891	\$318,232	\$483,727	\$403,874
HYNEX	\$3,202,087	\$2,782,440	\$419,647	\$3,708,619	12.15%	\$348,808	\$46,810	\$376,862	\$119,769
PACIFIC BELL	\$1,688,700	\$1,318,024	\$370,676	\$2,481,590	15.15%	\$278,804	\$143,748	\$248,189	\$188,177
NEVADA BELL	\$53,891	\$41,483	\$12,118	\$70,221	17.26%	\$7,890	\$8,391	\$7,892	\$7,721
SOUTHERN BELL	\$2,091,806	\$1,643,488	\$448,308	\$3,381,898	13.37%	\$377,288	\$107,863	\$338,169	\$171,376
UNION	\$2,423,710	\$1,980,888	\$442,822	\$4,097,182	11.81%	\$488,885	\$31,862	\$488,718	\$97,485
ROCHESTER	\$27,821	\$18,388	\$9,433	\$36,432	19.37%	\$7,139	\$7,768	\$8,349	\$8,897
PROXIMA	\$25,877	\$18,731	\$7,246	\$33,083	21.87%	\$3,722	\$5,349	\$3,398	\$8,088
CENTEL-FLA	\$4,086	\$42,112	\$11,869	\$58,917	17.19%	\$7,821	\$8,281	\$8,882	\$7,878
CENTEL-ILLINOIS	\$4,885	\$28,884	\$3,991	\$4,789	18.88%	\$3,813	\$4,378	\$3,476	\$8,088
CENTEL-NEVADA	\$88,497	\$48,170	\$20,237	\$68,667	20.43%	\$11,144	\$13,777	\$9,888	\$18,888
CENTEL-NC	\$27,734	\$21,404	\$6,330	\$41,229	15.36%	\$4,837	\$2,885	\$4,122	\$3,348
CENTEL-TEXAS	\$28,894	\$18,088	\$7,806	\$34,220	21.81%	\$3,872	\$8,888	\$3,442	\$8,191
CENTEL-UTAH	\$41,228	\$31,888	\$9,430	\$59,428	15.87%	\$8,884	\$4,181	\$8,881	\$8,387
UNITED-FLA	\$215,011	\$188,841	\$26,170	\$283,871	19.22%	\$33,880	\$38,489	\$28,387	\$41,888
UNITED-NEVADA	\$38,139	\$28,573	\$7,564	\$37,214	20.33%	\$4,187	\$8,117	\$3,721	\$8,882
UNITED-NORTHWEST	\$128,878	\$84,488	\$33,882	\$171,289	18.88%	\$18,282	\$21,888	\$17,140	\$24,813
UNITED-ALPHA	\$72,888	\$58,848	\$14,088	\$88,881	16.37%	\$11,884	\$7,813	\$9,888	\$8,473
UNITED-NC	\$143,887	\$110,787	\$32,810	\$183,883	17.77%	\$28,847	\$18,138	\$18,388	\$21,881
UNITED-OKLA	\$87,127	\$71,887	\$15,280	\$100,887	15.85%	\$11,317	\$7,141	\$10,880	\$8,848
UNITED-NORTHWEST	\$33,813	\$22,348	\$11,284	\$32,814	34.22%	\$3,783	\$11,486	\$3,391	\$12,888
UNITED-SOUTHWEST	\$88,728	\$44,838	\$15,188	\$18,134	18.88%	\$8,878	\$8,428	\$7,878	\$18,888
SUNNY LOCAL	\$1,028,838	\$777,883	\$251,852	\$1,338,748	18.76%	\$188,271	\$182,888	\$152,878	\$177,888
SUNNY	\$33,814	\$278,732	\$38,282	\$477,342	11.88%	\$83,791	\$2,383	\$47,734	\$11,428
OTE			\$334,818	\$4,428,273	12.87%	\$488,488	\$98,322	\$442,887	\$138,228
TOTAL			\$4,481,314	\$32,087,888	13.81%	\$3,887,848	\$1,283,431	\$3,208,880	\$1,888,780